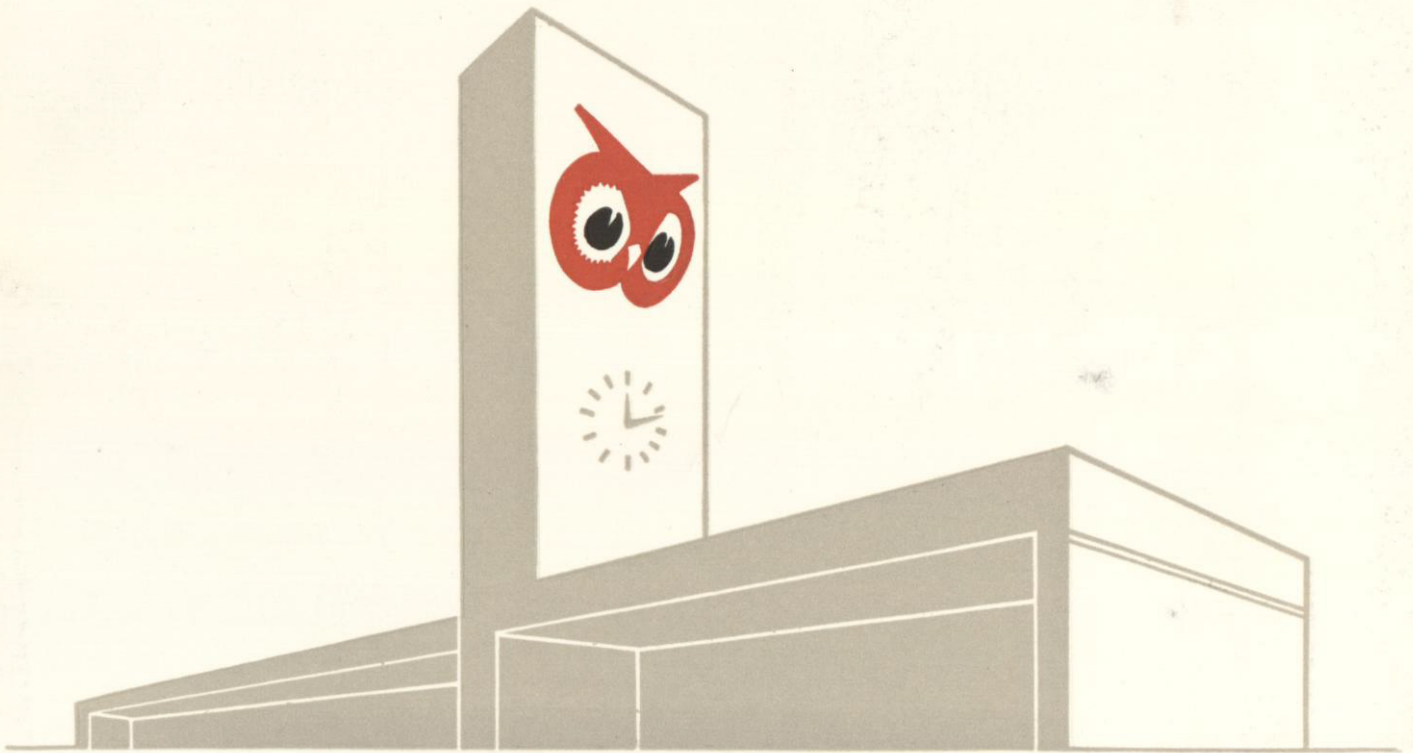


35th Anniversary Annual Report



Red Owl Stores, Inc. • For period ended March 2, 1957

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Directors **FORD BELL**, Chairman of the Board of Directors and Chief Executive Officer, Red Owl Stores, Inc.; **ALF L. BERGERUD**, Vice President, Red Owl Stores, Inc.; **JOHN C. CORNELIUS**, Honorary Director, Batten, Barton, Durstine & Osborn, Inc.; **JOHN Y. DEAR**, Retired Vice President, Red Owl Stores, Inc.; **GLENN R. GRIFE**, President, Red Owl Stores, Inc.; **RICHARD L. KOZELKA**, Dean, School of Business Administration, University of Minnesota; **PIERCE H. McDOWELL**, President, Howalt-McDowell, Inc., Sioux Falls, South Dakota; **JOSEPH F. RINGLAND**, President, Northwestern National Bank of Minneapolis; **HENRY C. STEPHENSON**, Financial Consultant; **H. J. WORRELL**, Vice President, Red Owl Stores, Inc.

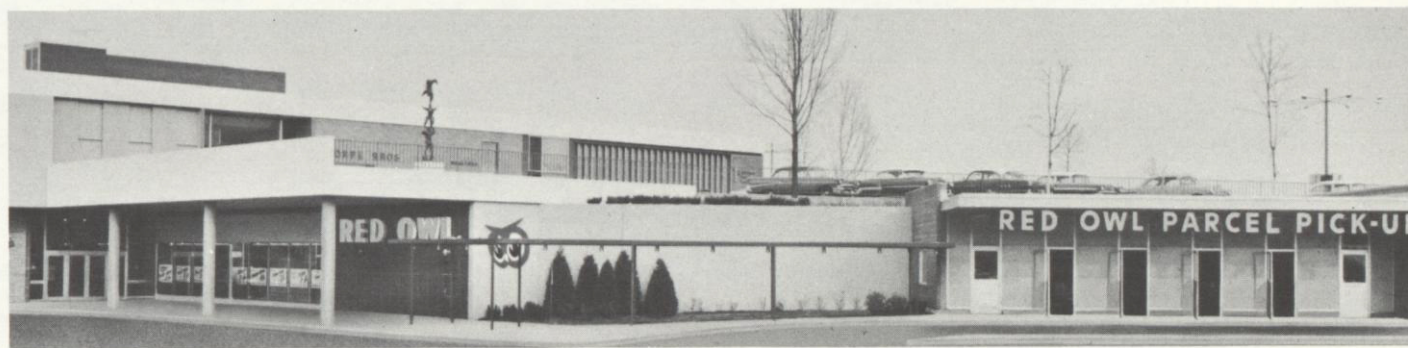
Officers **FORD BELL**, Chairman of the Board of Directors and Chief Executive Officer; **GLENN R. GRIFE**, President; **ALF L. BERGERUD**, Vice President; **W. J. QUINN**, Vice President; **ERLING RICE**, Vice President; **H. J. WORRELL**, Vice President; **L. W. RIXE**, Treasurer; **J. T. SYDNESS**, Secretary; **F. D. SCOTT**, Controller; **MICHAEL J. McMAHON**, Assistant Vice President; **JAMES A. WATSON**, Assistant Vice President; **V. J. WINTER**, Assistant Vice President; **T. R. PELLETT**, Assistant Treasurer; **A. L. NORDSTROM**, Assistant Secretary.

Highlights

RED OWL STORES, INC. (excluding Realty Holding Subsidiary)

	FISCAL YEAR ENDED		PERCENTAGE INCREASE
	Mar. 2, 1957 (53 weeks)	Feb. 25, 1956 (52 weeks)	
Retail sales.....	\$124,292,620	\$ 95,073,867	30.7%
Wholesale sales.....	30,249,597	28,679,189	5.5
Total.....	154,542,217	123,753,056	24.9
Earnings			
Before taxes on income.....	3,920,122	2,569,625	52.6
Net earnings for year.....	1,798,122	1,219,625	47.4
Reinvested in business.....	1,051,390	509,947	106.2
Earned per share common.....	3.08(1)	2.17	41.9
Dividends per share.....	1.25	1.20	4.2
Net working capital.....	8,138,663	8,083,655	1.0
Ratio of current assets to current liabilities.....	2.02 to 1	2.19 to 1	
Book value per share common.....	20.35	18.11	

(1) As of March 5, 1957 all preferred shares had been converted. Assuming full conversion just prior to the close of the year, earnings per share common would have been \$2.84.



"Drive-in" parcel pick-up at Red Owl's new store in Minneapolis' famous Southdale



"A year of notable accomplishment ...



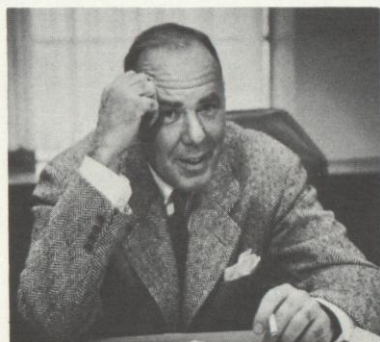
sales increased 25%...



net earnings climbed 47%...



23 new supermarkets opened ...



grateful for your continued interest."

To our Stockholders and Employees

Red Owl's 35th year was the best in its history—a year of notable accomplishment. Sales, earnings, and supermarket expansion exceeded all previous records.

Sales increased 25% over a year ago for an all-time high. This sales growth, far in excess of the industry average, was due almost entirely to added tonnage since food prices remained quite stable. Average sales per retail location rose to \$851,000, more than double the 1953 average, indicating the sales benefits of the Company's stepped-up transition into large supermarkets.

Net earnings climbed 47% over the previous year to an unprecedented level of \$1,798,122. Earnings per share common were \$3.08 against \$2.17 a year ago.

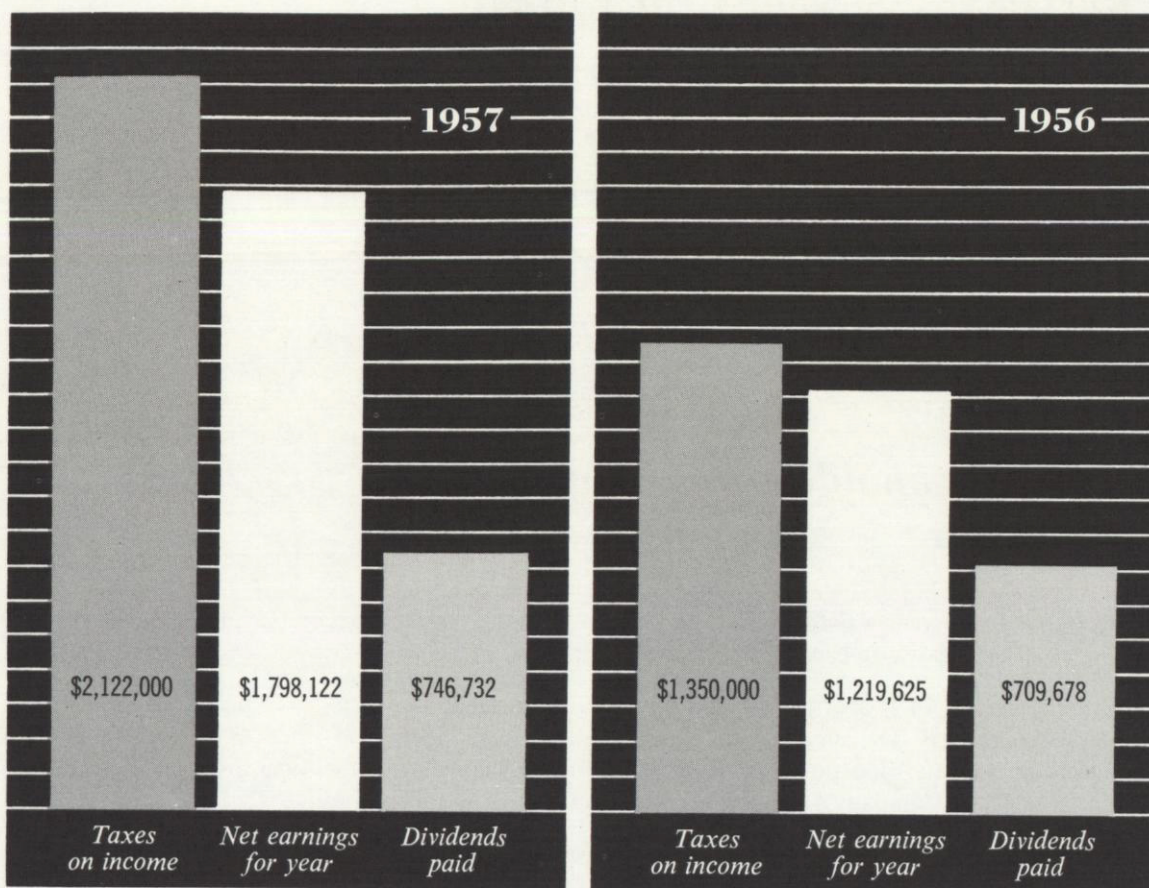
The cash dividend payment made on February 15, 1957 was increased to 35 cents per share of common stock from the previous quarterly rate of 30 cents. Approximately 42% of the net earnings were returned to the common and preferred shareholders on their investment.

The growth of the Company continued with the opening of twenty-three stores—the most ambitious supermarket development ever attempted by Red Owl. Simultaneous with attracting new customers in twelve new trade centers, the Company strengthened its position by replacing eleven inadequate existing locations.

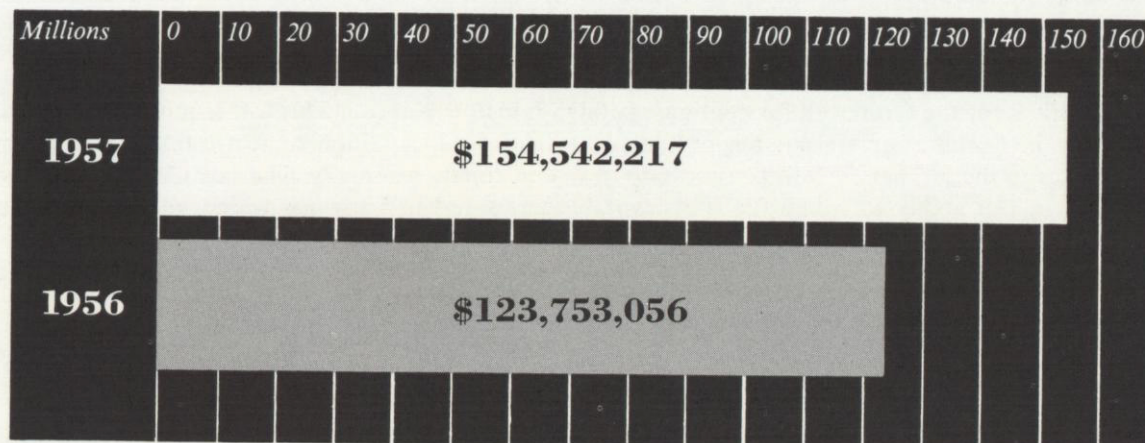
Objectives for the future call for continuing a high rate of expansion. This will require a substantial investment in working capital, equipment and plant facilities. In addition to reinvesting a portion of the earnings in the business, it will be necessary to obtain capital externally. The rate of expansion will be guided by our ability to secure funds at favorable terms and in a manner which will maintain our sound capital structure.

It is expected that sales and earnings will increase in the coming year. Although a favorable return on investment is anticipated, it will be more difficult to improve earnings in relation to sales increases. Costs of goods and services are constantly rising. Therefore, more than ever, emphasis will be put on research to seek out improved and more economical methods of distributing merchandise to the consumer.

Without the splendid support of our many employees and stockholders, Red Owl could not have achieved its 35 year record of progress. We are grateful, indeed, for your interest, cooperation, and good will.



Comparison of taxes on income, net earnings, dividends



Total sales comparison

Review of the Year's Operations

The fiscal year ended March 2, 1957 included fifty-three weeks for accounting and reporting purposes, while comparative figures for the previous year represent fifty-two weeks. The comments of the year's operations of Red Owl Stores, Inc. and Hopkins Realty Company are shown separately to conform with the presentation of the financial statements elsewhere in this report.

Red Owl Stores, Inc.

Sales up 25%

Sales for the year gained almost 25%, continuing the growth pattern so marked in the last few years. Retail sales were more than 30% over a year ago. For a like period of 52 weeks this increase amounted to 28%. Of special significance was the sales increase of those stores in existence for the comparable periods of both years—approximately 13%. Although a number of the less profitable Agency accounts were discontinued, wholesale sales were up too, indicating a higher volume of business with the remaining customers.

Earnings at all-time high

The ten-year summary, on page 20, shows that total sales have increased 150% in a decade. A portion of this is accounted for by changes in price levels during that period.

Pre-tax earnings were at an all-time high, amounting to \$3,920,122 or 2.53% of sales, compared with \$2,569,625 or 2.08% the prior year.

After taxes, net earnings were \$1,798,122. After preferred dividend requirements this was equal to \$3.08 per share common stock computed on the 561,861 shares outstanding at the year-end against \$2.17 per share on the 513,901 shares outstanding a year ago.

Conversion of all remaining preferred shares occurred on March 5, 1957. Assuming full conversion just prior to the close of the fiscal year, net earnings would have been \$2.84 per share common.

The higher earnings level was achieved despite rising costs and the impact of opening more new supermarkets. The record earnings reflect the better-than-average operating results and efficiencies of large stores opened in recent years, and improved merchandising methods.

The following figures show the approximate profit margins realized on retail operations compared with over-all results:

	<i>Retail Operations</i>	<i>Total Company</i>
Gross profit on sales.....	18.35%	15.69%
Operating earnings before taxes on income	2.77%	2.54%
Net earnings.....	1.27%	1.16%

Dividends increased

Although wholesale sales produce lower profit margins, the Company is not required to carry an investment in store equipment and inventories, thereby resulting in a more rapid turnover of capital.

Red Owl has paid dividends on its common stock uninterrupted since 1933. During the recent years of rapid development, it has been management's practice to return what it believes to be a fair share of earnings to its shareholders. At the same time, a sufficiently conservative policy has been maintained to permit re-investing a substantial portion in expansion which has been to the ultimate benefit of the stockholder.

In view of the year's favorable results, the 30 cent per share quarterly common stock cash dividend previously paid was increased to 35 cents with the February 15, 1957 payment. This brought the total paid to \$1.25 per share during the fiscal year. Preferred shareholders received an aggregate of \$82,769.

Sound financial position

Net working capital at the close of the year was \$8,138,663. The ratio of current assets to current liabilities was 2.02 to 1.

Inventories increased from \$9,672,573 to \$10,656,856 at the year-end. This rise was due primarily to amounts needed to stock new store locations as well as warehouse requirements to support the present volume. The rate of merchandise turnover for the year was at a new high level.

It has been the policy of the Company to acquire land, construct, sell and lease back its store locations. Due to the magnitude of the Company's store expansion, it is necessary to maintain a temporary investment in real estate on a revolving basis. At the year-end, the non-current net investment in store sites and buildings held for sale to the realty subsidiary or others amounted to \$531,374. Recovery was anticipated soon after the close of the year.

Capital invested in new fixtures and equipment during the year amounted to about \$2,000,000 compared with \$1,500,000 a year ago.

Financial planning keyed to continued expansion

At the outset of its accelerated expansion program in 1954, the Company sold to institutional holders 25,000 shares convertible preferred stock in an amount of \$2,500,000 to partially finance its growth. In the following year 6,150 shares were converted by the holders. During the year under review 9,350 additional shares of the preferred outstanding were converted, resulting in the issuance of 46,750 shares of common stock.

After the close of the fiscal year in March, 1957, the 9500 remaining shares of preferred were converted and the resulting 47,500 common shares were redistributed.

During the past ten years the number of stockholders has more than tripled to about 2,400 at the year-end, including important financial institutions.

Long range financial planning anticipates a continued supermarket expansion program. Steps have been taken by the Company and its financial advisors to provide outside capital to support a growth which could result in a sales level of about \$250,000,000 within the next three years. The rate of expansion will be determined by the availability of funds at favorable terms.

Contribution of personnel

The growth and progress of the Company would not have been possible without the loyal and conscientious efforts of its personnel.

Red Owl employees have proven their ability to accept the challenges of progress. Consistent with the Company's policy of promoting from within the organization, employees were given added training and placed in positions of greater responsibility to meet the increased needs of executive manpower. In certain cases, technical specialists were added to the staff.

Training clinics designed to offer greater knowledge and proper care of perishable products were extended. More stress, too, has been placed on employee and customer safety. Significant cost reduction and increased customer-employee goodwill are expected to result from the latter.

The Company encourages its employees to participate in local civic and charitable affairs. Red Owl is proud of the fact that in both the past two years a Company employee has won the National Good Citizenship Award sponsored by the National Association of Food Chains.

Many Red Owl employees are also part owners of the business, holding shares of the Company's capital stock. During the year various employees who participated in the Stock Option Plan exercised options for a portion of the stock for which they qualified.

Supermarket expansion continues

Independent surveys continue to prove that courteous service ranks high as a reason for customer preference for a particular supermarket. Regular store meetings place emphasis on Red Owl being a leader in courtesy and friendliness. Various incentives and techniques are used to sustain this important program.

Twenty-three supermarkets (including five built and equipped but not ready for opening a year ago) were opened. Building design and equipment changes have resulted in the obsolescence of certain existing locations. The Company continued its policy of replacing inadequately equipped stores having little or no parking. Of the twenty-three supermarkets opened this year, eleven were relocations and twelve represented Red Owl's entry into new trade centers. The gain in number of stores was three. However, net store area increased by approximately 175,000 square feet.

Stores at beginning of year		143
New trade centers	12	
Relocations	11	23
	<hr/>	<hr/>
		166
Closed or relocated	16	
Converted to Agency accounts	4	20
	<hr/>	<hr/>
Stores at end of year		146

During the year, the following stores were opened:

MINNESOTA

Montevideo
St. Cloud
Twin City—Metropolitan area
Anoka
Bloomington
Grand & Syndicate
(St. Paul)
Southdale Shopping
Center (Edina)

NORTH DAKOTA

Bottineau
Bowman
Mandan
Minot

SOUTH DAKOTA

Mitchell
Yankton

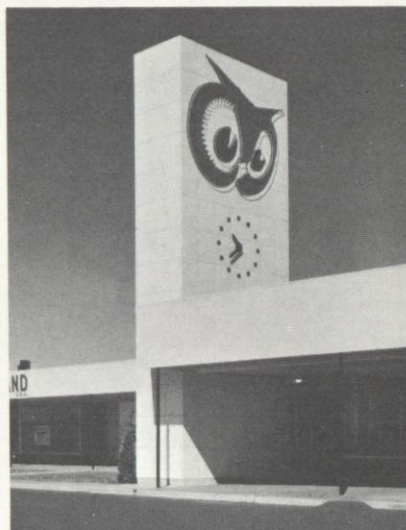
WISCONSIN

E. De Pere
Fond Du Lac
La Crosse
Kaukauna
Manitowoc
Neenah
Oshkosh
Rhineland
Sturgeon Bay
Superior
Wisconsin Rapids

In most instances, the progress and consumer acceptance of these stores since opening have been most encouraging. Added effort was put on store expansion in key Wisconsin cities serviced by the Green Bay branch. At this time twenty Red Owl supermarkets are operated in the Twin City metropolitan area. Of special significance was the opening of Red Owl's exclusive supermarket in the nationally publicized Southdale Shopping Center in suburban Minneapolis.

An addition to the Hopkins warehouse is now under construction to handle fruit and vegetable operations. It will replace an obsolete warehouse located in Minneapolis and will centralize merchandise distribution from Hopkins.

This new warehouse, together with a major modification of the Hopkins bakery, will increase the capacity so necessary to store expansion, reduce costs through efficiencies, and provide better service and higher quality goods to the consumer.



A familiar sign in the Northwest



35 YEARS AGO Red Owl stores looked something like this. High shelves, counter scales and wooden egg cartons were common then.

Hopkins Realty Company

Hopkins Realty Company, a wholly owned real estate subsidiary, was acquired by Red Owl Stores, Inc. during the previous year. Its principal functions are developing, holding and leasing various store and warehouse locations to Red Owl. Generally, upon the acquisition of properties, they are financed by the sale of mortgage bonds secured by the properties and the assignment of Red Owl's leases to the purchaser of the bonds. Red Owl does not guarantee the subsidiary's obligations.

At the balance sheet date, Hopkins Realty Company had not sold any of the Series E bonds covering store properties. However, several locations were being appraised and it is probable that the commitment of \$1,250,000 will be utilized within the next year.

In December, 1955 negotiations were completed for the purchase of the main office and plant in Hopkins, Minnesota. At that time Hopkins Realty Company secured a commitment for \$650,000 through an agreement with an insurance company to finance the fruit and vegetable addition. These funds will be borrowed upon completion of construction during the coming year.

A Look at the Future

Economic surveys and business leaders point to another good year ahead, with great promise for the long range future of the Red Owl trade area. It now appears that sales and earnings will increase in the coming year. However, a climb in earnings proportionate to sales growth will be more difficult to achieve.

Current plans call for continuing a fast rate of supermarket expansion. The scope of the program will be affected by the availability of outside capital and the reasonableness of lease terms.

With the completion of the Hopkins plant addition, the Company will have three warehouses in strategic locations to provide the capacity—with only minor modifications—for the planned store expansion within its present operating territory.

Accompanying these plans for new stores will be an intensified development program of middle-management and key executives.

Every effort will be made to increase the operating efficiency of each segment of the Company via thorough research in handling, distribution and merchandising methods.



MODERN AS TOMORROW are these Red Owl stores of today. Gleaming counters offer only freshest, choicest meats and produce.

How the Sales Dollar was Divided



87.5¢ For merchandise, transportation and handling costs

9.3¢ For wages, salaries and employee benefits

1.4¢ For income taxes

0.6¢ For depreciation of buildings and equipment

0.5¢ To stockholders

0.7¢ Reinvested in the business

Statement of Operations and Retained Earnings

Red Owl Stores, Inc. • Year ended March 2, 1957 (with comparative figures for the previous year)

	YEAR ENDED MARCH 2, 1957 (53 weeks)			YEAR ENDED FEB. 25, 1956 (52 weeks)
	<u>Retail</u>	<u>Wholesale</u>	<u>Combined</u>	<u>Combined</u>
Net sales.....	\$124,292,620	30,249,597	154,542,217	123,753,056
Cost of goods sold, including warehousing and transportation expenses (Note 6).....	101,490,237	28,797,786	130,288,023	105,505,924
Gross profit on sales.....	<u>\$ 22,802,383</u>	<u>1,451,811</u>	<u>24,254,194</u>	<u>18,247,132</u>
Selling, general and administrative and other operating expenses (Notes 5 and 6).....			20,308,656	15,629,983
Operating earnings.....			<u>3,945,538</u>	<u>2,617,149</u>
Other income:				
Gain on sales of property and equipment.....			46,997	40,212
Miscellaneous income.....			74,731	47,319
			<u>121,728</u>	<u>87,531</u>
			4,067,266	2,704,680
Other charges:				
Interest (on long-term debt).....			100,750	110,050
(other).....			18,028	20,481
Miscellaneous charges.....			28,366	4,524
			<u>147,144</u>	<u>135,055</u>
Earnings before taxes on income.....			<u>3,920,122</u>	<u>2,569,625</u>
Taxes on income, estimated:				
Federal.....			1,960,000	1,255,000
State.....			162,000	95,000
			<u>2,122,000</u>	<u>1,350,000</u>
Net earnings.....			<u>1,798,122</u>	<u>1,219,625</u>
Deduct:				
Dividends on Red Owl Stores, Inc. capital stock:				
4¾ % convertible preferred stock.....			82,769	111,447
Common stock—\$1.25 and \$1.20 per share in respective years.....			663,963	598,231
			<u>746,732</u>	<u>709,678</u>
			1,051,390	509,947
Balance of retained earnings at beginning of year.....			<u>5,922,837</u>	<u>5,412,890</u>
Balance of retained earnings at end of year (Note 3).....			<u>\$ 6,974,227</u>	<u>5,922,837</u>

See accompanying notes to financial statements

Balance Sheet

Red Owl Stores, Inc. • March 2, 1957 (with comparative figures for the previous year)

Assets

	MAR. 2, 1957	FEB. 25, 1956
Current assets:		
Cash.....	\$ 3,694,017	3,132,151
Accounts receivable:		
Customers.....	814,894	843,994
Equity in installment contracts sold (uncollected balances of accounts sold to banks \$205,824 and \$97,165 in respective years).....	51,490	25,135
Due from vendors, claims, etc.....	498,512	211,343
	1,364,896	1,080,472
Less allowance for doubtful accounts.....	79,885	79,885
	1,285,011	1,000,587
Merchandise inventories, at lower of cost (first-in, first-out) or market, less \$285,000 reserve.....	10,656,856	9,672,573
Prepaid expenses.....	428,687	413,273
Properties subsequently sold or in process of sale (with agreements to lease back).....	20,310	633,903
Total current assets.....	16,084,881	14,852,487
Cash surrender value of life insurance.....	62,155	55,456
Investment in subsidiary, Hopkins Realty Company.....	10,000	10,000
Property, plant and equipment, at cost:		
Land.....	64,799	554,926
Buildings.....	58,295	246,835
Furniture, fixtures and equipment.....	7,691,342	6,342,928
Automotive equipment.....	1,660,658	1,661,750
	9,475,094	8,806,439
Less depreciation.....	4,144,651	3,802,841
	5,330,443	5,003,598
Leasehold improvements, at cost less amortization.....	677,332	459,033
Construction in progress.....	—	168,944
Store properties, less depreciation, held for sale.....	531,374	—
	6,539,149	5,631,575
Other assets.....	109,232	121,973
	<u>\$22,805,417</u>	<u>20,671,491</u>

Liabilities

Current liabilities:		
Current installments of long-term notes.....	\$ 240,000	240,000
Drafts and accounts payable.....	4,590,051	4,019,416
Accrued expenses.....	1,306,825	1,284,820
Federal and State taxes on income, estimated.....	1,809,342	1,224,596
Total current liabilities.....	7,946,218	6,768,832
Provision for deferred income taxes (Note 6).....	195,333	79,223
Long-term 37/8% notes payable due July 1, 1966, payable in annual installments of \$240,000 on July 1 in each of the years 1958 through 1965 and unpaid balance on July 1, 1966, exclusive of current installments included above (Note 3).....	2,280,000	2,520,000
Stockholders' equity:		
Capital stock (Notes 1 and 2):		
Preferred stock—par value \$100 per share.		
Authorized 50,000 shares; issued and outstanding at respective dates, 9,500 and 18,850 shares, 43/4 % conv., Series A.....	950,000	1,885,000
Common stock—par value \$3 per share.		
Authorized 1,250,000 shares; issued and outstanding at respective dates, 561,861 and 513,901 shares.....	1,685,583	1,541,703
	2,635,583	3,426,703
Additional amounts paid in by stockholders (Note 1).....	2,774,056	1,953,896
Retained earnings, per accompanying statement (Note 3).....	6,974,227	5,922,837
	12,383,866	11,303,436
Long-term lease commitments (Note 7).....		
	<u>\$22,805,417</u>	<u>20,671,491</u>

See accompanying notes to financial statements

Statement of Operations and Retained Earnings

Red Owl Stores, Inc. and Realty Holding Subsidiary • Year ended March 2, 1957

	RED OWL STORES, INC.	HOPKINS REALTY COMPANY	CONSOLIDATED
Sales and revenue:			
Net sales.....	\$154,542,217	—	154,542,217
Rents received from parent company.....	—	329,382	—
	154,542,217	329,382	154,542,217
Cost of sales and operating expenses (Notes 5 and 6):			
Cost of goods sold, including ware- housing and transportation expenses.....	130,288,023	—	130,084,204
Selling, general and administrative and other operating expenses.....	20,308,656	86,608	20,270,392
	150,596,679	86,608	150,354,596
Operating earnings.....	3,945,538	242,774	4,187,621
Other income.....	121,728	2,056	124,476
	4,067,266	244,830	4,312,097
Other charges:			
Interest:			
On long-term debt.....	100,750	124,531	225,281
Other.....	18,028	4,750	22,778
Miscellaneous charges.....	28,366	14,370	42,737
	147,144	143,651	290,796
Earnings before taxes on income.....	3,920,122	101,179	4,021,301
Taxes on income, estimated.....	2,122,000	47,000	2,169,000
Net earnings.....	1,798,122	54,179	1,852,301
Deduct dividends on Red Owl Stores, Inc. capital stock:			
4¾ % convertible preferred stock.....	82,769	—	82,769
Common stock.....	663,963	—	663,963
	746,732	—	746,732
	1,051,390	54,179	1,105,569
Balance of retained earnings at beginning of year.....	5,922,837	15,245	5,938,082
Balance of retained earnings at end of year (Note 3).....	\$ 6,974,227	69,424	7,043,651

See accompanying notes to financial statements

Balance Sheet

Red Owl Stores, Inc. and Realty Holding Subsidiary • March 2, 1957

Assets	RED OWL STORES, INC.	HOPKINS REALTY COMPANY	CONSOLIDATED
Current assets:			
Cash.....	\$ 3,694,017	18,131	3,712,148
Accounts receivable, less allowance for doubtful accounts.....	1,285,011	—	1,285,011
Merchandise inventories, at lower of cost (first-in, first-out) or market, less \$285,000 reserve.....	10,656,856	—	10,656,856
Prepaid expenses.....	428,687	528	429,215
Properties subsequently sold or in process of sale (with agreements to lease back).....	20,310	268,399	288,709
Total current assets.....	16,084,881	287,058	16,371,939
Cash surrender value of life insurance.....	62,155	—	62,155
Investment in realty holding subsidiary.....	10,000	—	—
Property, plant and equipment, at cost:			
Land.....	64,799	334,006	398,805
Buildings.....	58,295	2,923,791	2,982,086
Furniture, fixtures and equipment.....	7,691,342	—	7,691,342
Automotive equipment.....	1,660,658	—	1,660,658
	9,475,094	3,257,797	12,732,891
Less depreciation.....	4,144,651	109,115	4,253,766
	5,330,443	3,148,682	8,479,125
Leasehold improvements, at cost less amortization	677,332	—	677,332
Construction in progress.....	—	237,983	237,983
Store properties, less depreciation, held for sale.....	531,374	—	531,374
	6,539,149	3,386,665	9,925,814
Other assets.....	109,232	25,624	134,856
	<u>\$22,805,417</u>	<u>3,699,347</u>	<u>26,494,764</u>
Liabilities			
Current liabilities:			
Notes payable to bank.....	\$ —	690,000	690,000
Current installments of long-term debt.....	240,000	154,000	394,000
Drafts and accounts payable.....	4,590,051	66,407	4,656,458
Accrued expenses.....	1,306,825	2,301	1,309,126
Federal and State taxes on income.....	1,809,342	47,215	1,856,557
Total current liabilities.....	7,946,218	959,923	8,906,141
Provision for deferred income taxes (Note 6).....	195,333	—	195,333
Long-term debt, less current installments included above:			
3 ⁷ / ₈ % notes payable due July 1, 1966, payable in annual installments (Note 3).....	2,280,000	—	2,280,000
Sinking fund mortgage bonds (Note 4):			
4% due June 1, 1969, Series A.....	—	734,500	734,500
4 ¹ / ₄ % due March 1, 1970, Series B.....	—	363,000	363,000
4 ¹ / ₂ % due December 1, 1975, Series C.....	—	1,562,500	1,562,500
4 ³ / ₄ % Series D.....	—	—	—
Authorized and unissued \$650,000	—	—	—
4 ³ / ₄ % Series E.....	—	—	—
Authorized and unissued \$1,250,000	—	—	—
	2,280,000	2,660,000	4,940,000
Common stock of realty holding subsidiary.....	—	10,000	—
Stockholders' equity:			
Preferred stock—4 ³ / ₄ % convertible, Series A, par value \$100 per share (Note 1).....	950,000	—	950,000
Common stock—par value \$3 per share (Note 2)....	1,685,583	—	1,685,583
Additional paid-in capital (Note 1).....	2,774,056	—	2,774,056
Retained earnings (Note 3).....	6,974,227	69,424	7,043,651
Total stockholders' equity.....	12,383,866	69,424	12,453,290
Long-term lease commitments (Note 7).....	—	—	—
	<u>\$22,805,417</u>	<u>3,699,347</u>	<u>26,494,764</u>

See accompanying notes to financial statements

Notes to Financial Statements

Red Owl Stores, Inc. and Realty Holding Subsidiary

Note 1 *Additional amounts paid in by stockholders during the year amounting to \$820,160 includes the excess, \$25,410, of amounts paid in over par value of 1,210 shares of common stock issued upon exercise of employees' stock purchase options, and the excess, \$794,750, of the conversion price over the par value of 46,750 shares of common stock issued on conversion of 9,350 shares of the 4¾% convertible preferred stock, Series A.*

Subsequent to the year end, additional amounts paid in by stockholders has been further increased by \$807,500, representing the excess of the conversion price over the par value of 47,500 shares of common stock issued on conversion of the 9,500 shares of 4¾% convertible preferred stock, Series A, which were outstanding at the year end.

Note 2 *Stock options to purchase 18,090 shares of common stock at \$24 a share (granted in fiscal year 1956) and 1,900 shares at \$26 to \$29 a share (granted in fiscal year 1957) were held by certain executive employees at March 2, 1957. The aggregate option value of the 19,990 shares under option at March 2, 1957 was \$484,760, an average of \$24.25 a share, as compared with an aggregate market value at dates of grant of \$504,750, an average of \$25.25 a share.*

Options for 2,650 shares exercisable at March 2, 1957 and the balance of the options outstanding which become exercisable over a period of five years commencing one year after the dates granted, subject to earlier expiration in the event of termination of employment, all expire if not exercised within six years of the dates granted. During the year ended March 2, 1957 options were exercised for 1,210 shares of common stock at \$24 a share, representing an aggregate option value of \$29,040. The market value of shares issued at the dates options were exercised aggregated \$36,643.

At March 2, 1957, 18,800 shares of common stock were reserved for future options under the Employees' Stock Option Plan at not less than 95% of the fair market value of the stock at the dates the options are granted.

Note 3 *Restrictions on payment of dividends (except stock dividends) and purchase, redemption or retirement of capital stock are imposed by terms of the agreement relating to the 3⅞% notes. The amount of retained earnings free from such restrictions at March 2, 1957 was approximately \$2,600,000. The 3⅞% note agreements, among other things, provide for prepayment of the long-term debt at the option of the Company at varying premiums.*

Note 4 *Sinking fund mortgage bonds, Series A, B and C issued or assumed by a wholly-owned realty holding subsidiary are secured by the Company's principal warehouse property and the subsidiary's interest in a thirty year lease made by the subsidiary to the Company covering the warehouse property.*

Sinking fund payments are required to retire, without premium, bonds presently outstanding aggregating \$154,000 in fiscal year 1958, approximately \$155,000 a year from 1959 through 1969, decreasing annual amounts through 1975 and unpaid balance in fiscal year 1976. The subsidiary, at its option, may make additional sinking fund payments without premium, at dates and in amounts specified by the terms of the mortgage indenture, and may redeem bonds after specified dates other than through operation of the sinking fund at varying premiums.

(Note 4 cont.) The realty subsidiary has received commitments from the holders of the presently outstanding mortgage bonds to purchase, within specified periods expiring in 1957, the unissued series D and E bonds. Until bonds of these series have been issued or the commitments have been terminated, the realty holding subsidiary is obligated to pay a quarterly fee at the rate of $\frac{1}{2}\%$ per annum on the aggregate unissued principal amount.

Note 5 Pension and profit sharing costs included in selling, general and administrative and other operating expenses are as follows:

	Year ended	
	Mar. 2, 1957	Feb. 25, 1956
Employees' profit sharing.....	\$ —	188,200
Pension premium costs.....	326,570	234,000

The pension plan is a non-contributory plan which is qualified under the Internal Revenue Code and provides retirement benefits for eligible employees.

Note 6 Depreciation and amortization expenses included in costs and expenses are summarized as follows:

	Year ended	
	Mar. 2, 1957	Feb. 25, 1956
Red Owl Stores, Inc.....	\$ 922,776	801,969
Hopkins Realty Company.....	84,482	19,801
Total.....	<u>\$1,007,258</u>	<u>821,770</u>

Depreciation on additions to fixtures and equipment acquired since January 1, 1954 for tax purposes has been computed by one of the accelerated methods of depreciation permitted by the Internal Revenue Code. For general accounting purposes, depreciation has been computed by the straight-line method as in previous years. Provision has been made by charge against current earnings for deferred income taxes relating to the excess of depreciation to be claimed for tax purposes over the corresponding depreciation charged against earnings.

Note 7 Long-term leases, excluding the lease to the Company by the realty holding subsidiary described below, expiring more than three years after March 2, 1957, establish minimum annual rentals on 95 stores and two warehouses. The approximate minimum annual rentals under such leases, excluding taxes, insurance, or maintenance costs payable by the Company, amount to \$1,210,000. Of this amount, leases with minimum annual rentals of \$156,000 expire within five years and leases with minimum annual rentals of \$1,054,000 have terms extending from five to twenty years from that date.

In addition, the Company has entered into agreements to lease store properties at new locations for initial periods of fifteen years at minimum annual rentals which will aggregate approximately \$43,000.

The Company has leased its principal warehouse and home office site from a wholly-owned subsidiary, Hopkins Realty Company, for an initial period of thirty years at a present minimum annual rental of \$310,000. Rents paid to this realty holding subsidiary have been eliminated in the consolidated figures which include depreciation and interest expense of that subsidiary.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.

Certified Public Accountants • Northwestern Bank Building, Minneapolis 2, Minnesota

The Board of Directors
Red Owl Stores, Inc.:

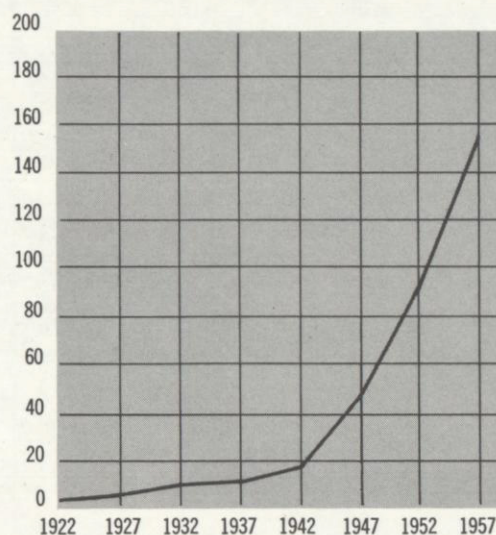
We have examined the balance sheets of Red Owl Stores, Inc. and of its realty holding subsidiary as of March 2, 1957 and the related statements of operations and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of operations and retained earnings present fairly the financial position of Red Owl Stores, Inc. and its realty holding subsidiary at March 2, 1957 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO:

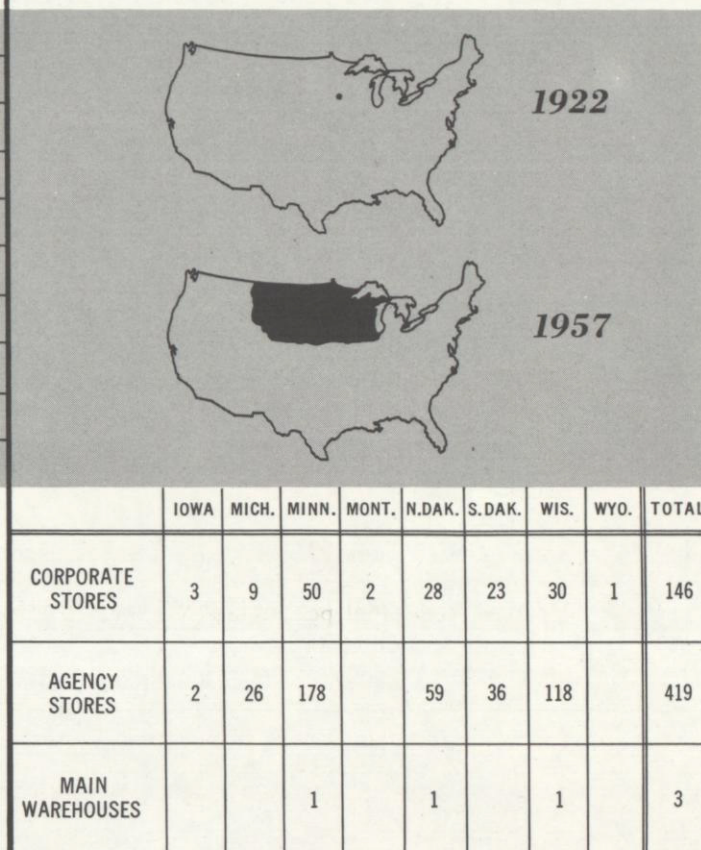
Minneapolis, Minnesota
April 19, 1957

Sales Growth Since 1922



On May 20, 1922 the first Red Owl store was opened in Rochester, Minnesota. A year later there were 11 stores and one warehouse. In 1940, Red Owl's first supermarket appeared—in Fargo, N.D. Today, three warehouses (Hopkins, Minn.; Fargo, N.D.; Green Bay, Wis.) and a sub-warehouse (Rapid City, S.D.) have been added to Red Owl's installations.

Territory Expansion Since 1922



Ten Year Record of Progress

Red Owl Stores, Inc.

(Excluding Real Estate Subsidiary)

Ten Year Record of Progress

Red Owl Stores, Inc. (Excluding Real Estate Subsidiary)

FISCAL YEAR ENDED IN	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948
Sales Retail.....	\$124,292,620	\$ 95,073,867	\$ 80,801,336	\$ 77,063,837	\$67,344,759	\$65,340,696	\$55,359,134	\$50,822,144	\$51,806,921	\$47,129,402
Wholesale.....	30,249,597	28,679,189	31,378,119	29,723,336	27,744,179	24,493,197	22,761,945	18,873,627	16,848,559	13,152,484
Total.....	\$154,542,217	\$123,753,056	\$112,179,455	\$106,787,173	\$95,088,938	\$89,833,893	\$78,121,079	\$69,695,771	\$68,655,480	\$60,281,886
Earnings before taxes on income...	3,920,122	2,569,625	2,046,882	1,430,100	1,585,929	1,720,269	2,157,583	1,775,677	1,166,943	1,112,224
Net earnings for year.....	1,798,122	1,219,625	972,253	680,100	745,929	732,269	1,046,583	1,057,085	720,783	703,274
Dividends paid on preferred stock	82,769	111,447	21,379	24,097	42,265	55,459	68,178	71,250	71,250	71,250
Net earnings applicable to common equity.....	1,715,353	1,108,178	950,874	656,003	703,664	676,810	978,405	985,835	649,533	632,024
Dividends paid on common stock.	663,963	598,231	507,308	458,536	432,067	413,340	355,174	195,310	195,310	312,496
Net earnings for year retained in business.....	1,051,390	509,947	390,396	197,467	271,597	263,470	623,231	790,525	454,223	319,528
Net earnings per share common...	3.08	2.17	1.93	1.43	1.54	1.63	2.41	2.52	1.66	1.62
Dividends per share common.....	1.25	1.20	1.05	1.00	1.00	1.00	.90	.50	.50	.80
Current assets.....	16,084,881	14,852,487	13,200,062	11,238,304	10,596,654	10,179,162	8,695,462	6,683,613	6,436,406	7,197,177
Current liabilities.....	7,946,218	6,768,832	5,430,478	5,100,594	4,405,043	3,990,964	4,714,840	2,637,100	3,556,907	4,017,462
Net working capital.....	8,138,663	8,083,655	7,769,584	6,137,710	6,191,611	6,188,198	3,980,622	4,046,513	2,879,499	3,179,715
Ratio of current assets to current liabilities.....	2.02 to 1	2.19 to 1	2.43 to 1	2.20 to 1	2.41 to 1	2.55 to 1	1.84 to 1	2.53 to 1	1.81 to 1	1.79 to 1
Stockholders' equity.....	12,383,866	11,303,436	10,793,489	8,026,465	7,829,066	7,558,564	7,295,710	6,672,938	5,416,474	4,706,617
Book value per share common....	20.35	18.11	16.87	16.32	15.89	15.29	14.60	12.97	9.76	7.94
Shares outstanding										
Preferred.....	9,500	18,850	25,000	4,934	5,239	11,471	12,888	15,000	15,000	15,000
Common.....	561,861	513,901	483,151	459,590	457,688	414,884	405,154	390,620	390,620	390,620
Number of common shareholders..	2,389	2,291	2,161	1,998	1,777	1,370	1,336	1,066	921	753
Number of stores at close of year										
Retail.....	146	143	145	151	162	179	181	189	199	228
Agency.....	419	504	556	551	562	559	546	536	476	397
Average retail sales per location...	851,000	665,000	557,000	510,000	415,000	365,000	306,000	269,000	260,000	207,000
Number of employees (Including part time).....	4,600	3,900	3,400	3,300	3,200	3,100	2,700	2,400	3,000	2,800



For more information about the activities and policies of Red Owl stores, write to:

RED OWL STORES, INC., HOPKINS, MINNESOTA

Executive Offices: 215 E. Excelsior Avenue, Hopkins, Minnesota

Mailing Address: Post Office Box 1128, Minneapolis, Minnesota

Stock Transfer Agent: Northwestern National Bank of Minneapolis

Auditors: Peat, Marwick, Mitchell & Co.